ANNUAL REPORT 1967

The JEWEL COMPANIES

DIVERSIFIED RETAILERS

Contents

RESULTS IN BRIEF

JEWEL COMPANIES, INC.

	1967 % to Total	Fiscal Year 1967	Fiscal Year 1966	% Increase 1967 Over 1966
		(Total dollars in thousands except per share figures)		
Sales:				
Supermarkets	76.1%	$ 946,642	$ 804,288	17.7%
Drug Stores	9.8	121,839	94,722	28.6
Home Service Routes	7.1	88,425	87,679	.9
Self-Service Department Stores	4.2	52,530	44,705	17.5
Restaurants	1.1	14,109	12,966	8.8
Wholesale and Other	1.7	20,872	15,777	32.3
Total sales	100.0%	1,244,417	1,060,137	17.4
Earnings Before Federal Income Taxes		31,339	28,730	9.1
Net Earnings for the Year		17,591	16,476	6.8
Per cent to total sales		1.4%	1.6%	
Earned Per Share of Common Stock		$2.64	$2.47	6.9
Cash Dividends Per Share of Common Stock		1.25	1.20	4.2
New Property, Plant and Equipment (net):				
Operating companies		$ 25,673	$ 21,739	
Real estate affiliates		5,050	10,080	

	As of Feb. 3, 1968	As of Jan. 28, 1967
Net Working Capital (In thousands)	$ 62,366	$ 64,621
Ratio of Current Assets to Current Liabilities	1.8 to 1	2.0 to 1
Operating Units:		
Supermarkets	370	367
Drug Stores	133	111
Self-Service Department Stores	9	9
Restaurants	76	79
Home Service Routes	2,017	2,109
Convenience Stores	19	14
Stockholders	14,015	13,560
Common Shares Outstanding (Average)	6,608,279	6,602,652
Full-Time Employees	18,913	18,030

MANAGEMENT'S REPORT

THE RECORD of the past year is summarized on the preceding page. However, the future of our business is better understood within a framework of the many ways we serve our customers, the manner in which we utilize the capital invested in the business and, most important of all, the development and organization of people to run the business. Our efforts to pictorially illustrate these elements of Jewel's future are represented beginning on page 6.

THE RESULTS—SALES AND EARNINGS AT RECORD HIGH

Sales were $1,244,417,000 in the 53 weeks ended February 3, 1968 compared with $1,060,137,000 in the 52 weeks of the 1966 fiscal year, a gain of $184,280,000 or 17.4%. On a weekly basis, the gain in sales was 15.2%. The year-to-year gain in sales was about equal to total Jewel sales in 1948 and exceeded that of any year in our history. For the 13-week fourth quarter, 1967, sales were $334,311,000, an improvement of 21.3% over the 12-week fourth quarter of 1966, or 12.0% on a weekly basis.

Net earnings increased 6.8% to $17,591,000 compared with $16,476,000 a year ago. Per-share earnings amounted to $2.64 compared with $2.47 in 1966.

Investment tax credits on eligible equipment purchases in 1967 totaled 15¢ per common share, the same as the previous year. The 1967 investment tax credit was added to earnings through reduction in federal income taxes as a year-end adjustment. In 1966 the credit was included in earnings reported to shareholders at the end of each quarter of the year. Net earnings for each quarter of 1967, restated to include applicable investment credit, are shown below and are compared to results for 1966, originally reported on this basis.

	Net Earnings ($000)		*Increase or*	*Per Common Share*	
Quarter	*1967*	*1966*	*(Decrease)*	*1967*	*1966*
First	$ 3,839	$ 3,672	4.5%	$ .57	$ .55
Second	4,486	4,541	(1.2)	.67	.68
Third	3,174	2,922	8.6	.47	.43
Fourth	6,092	5,341	14.1	.93	.81
Year	$17,591	$16,476	6.8%	$2.64	$2.47

We feel that the improved results for 1967, achieved during a time of increased competition and increased customer concern over inflation, are a result of two major influences:

1. The strong reputation of each of the Jewel companies with its customers for quality of merchandise and service accompanied by an accelerated emphasis on price and value.
2. The enthusiastic response within management at all levels to the development of autonomously operated Jewel companies (described in our 1965 Annual Report). This has resulted in a competition for excellence between the several Jewel companies.

Record sales reflect the continuing improvement in our drug and general merchandise activities as well as marked gains in our supermarket business, particularly in the Midwest. Most encouraging has been the trend of the sales of identical stores, stores physically unchanged from the previous year. The growth of identical store sales in 1967 contributed 10.2% of total sales gains, with the balance produced by new retail units.

Identical Store Sales

	% Improvement 1967 over 1966 (Weekly Basis)
Supermarkets	9.9%
Drug Stores	13.6
Self-Service Department Stores	12.1

It is noteworthy that the rise in supermarket sales during the past year mainly reflected tonnage gains. According to U.S. Government sources, the price of food consumed at home increased less than .3% nationally in 1967 in contrast to the 5.0% rise in 1966.

Supermarket operating earnings (before interest, corporate expenses, and provision for retirement trusts and federal income taxes) increased 9.0% and operating earnings (similarly defined) from general merchandise store businesses were up 59.1%. Each of the Jewel companies enjoyed earnings increases except the Home Service Routes and Star Markets.

At Star, start-up costs associated with the introduction of "Miracle Prices" in New England food stores and lower gross margin reduced profits. The decline in earnings of the Home Service Routes was accompanied by a consolidation of operating units and improved control over inventory which resulted in a reduction of more than $3,000,000 in our investment in this Jewel company. A modest increase in Routes' earnings and a further substantial reduction in investment is budgeted for 1968 as part of our plan to build a stronger base in the future and a more attractive return on investment in our Home Service Routes.

FUTURE EXPANSION PROGRAM

We are embarked on a major expansion of your Company's business. Over the next three years we anticipate that more than $100 million will be needed for new capital assets and added working capital to support the program. Of this total, approximately one-third is scheduled to be committed over each of the next 3 years. In this period, increasing weight will be given to the development of combination food/drug stores and an accelerating Turn-Style self-service department-food store development. We currently anticipate building 2 Turn-Style units of 125,000 square feet each in 1968 and 4 similar units in both 1969 and 1970. At the same time, Osco Drug, Inc. will continue its expansion in the Central States and in Buttrey territory in the Far West. Additional investments will also be made in manufacturing and processing activities.

While most of the funds required to finance this expansion program will come from internally generated cash flow, we have recently negotiated $38 million of new debt capital for the business, consisting of an $8 million increase in our Bank Credit Agreement with two major Chicago banks, which now totals $16 million, and $30 million of new 25-year debt with three major insurance companies. Funds available from the insurance companies will be taken down at the rate of $10 million annually over the next three years.

FOREIGN AFFILIATES

Notable progress has been recorded during the past year by all of Jewel's foreign affiliates, particularly those in Belgium. Supermarchés GB, operating 39 supermarkets, has expanded its earning power to the point where our first dividend is expected in mid-1968. While this dividend will be modest, the strengths of the enterprise are such that we may anticipate growing dividends on our investment in the future. Supermarchés GB, 36% owned, plans seven new supermarkets in 1968, while Super Bazars, our other Belgian affiliate and 18.75% owned, has scheduled two new self-service department stores. Stella Supermarkets, in Northern Italy, 49% Jewel owned, is budgeting its first profit year in the 12 months beginning July 1, 1968. Five new supermarkets are scheduled in the current year.

Our affiliated operation in Spain, 21.5% owned and organized in October, 1966, has encountered unexpected delays, but the first combination food and drug store is expected to be in operation in April, 1968.

In total, Jewel's affiliates in Belgium and Italy reported sales of $88,834,000 in 1967 compared with $65,839,000 in the prior year, a gain of 34.9%.

THE 1968 OUTLOOK

Our budgets for 1968 call for the following changes in store units:

Summary of Planned 1968 Retail Store Openings

	New Units	*Closings*
Supermarkets	28	20
Drug Stores	20	—
Turn-Style Family Centers	2	—
Brigham's Shops (New England)	8	—
Convenience Food Stores	11	—

The food stores closing program recognizes that larger food and food/drug combination stores with larger parking areas are much more efficient and effective retail units than the solo food store of even 7 or 8 years ago.

In addition to the retail store openings, we anticipate the construction of more manufacturing and processing facilities. These projects include a sausage manufacturing plant now under construction. The new Jewel fluid milk plant in Melrose Park, mentioned in last year's Annual Report, will begin operations this spring.

For 1968 we expect a new record for sales of your companies. Earnings are also budgeted to set an all-time high although final results for 1968 may be affected by a possible federal income tax increase and other action by Government to support the need for fiscal and monetary restraint.

We are confident that all Jewel people will continue to search out and support developments which lead to more efficient handling of the merchandise we sell and to the creation of more pleasant shopping experiences for customers, both essential in making our growth profitable for customers and, hence, for employees and shareowners.

G. L. Clements
GEORGE L. CLEMENTS
Chairman of the Board

D S Perkins
DONALD S. PERKINS
President

F J Lunding
FRANKLIN J. LUNDING
Chairman, Finance Committee

COMPOSITION OF THE JEWEL COMPANIES

JEWEL FOOD STORES	1967	Plan 1968
Stores—beginning of year	261	261
New stores added	10	18
Old stores closed	10	20
Stores—end of year	261	259

Store area (average square feet) 14,700
(range—square feet) 4,000—29,875

STAR MARKETS	1967	Plan 1968
Stores—beginning of year	41	45
New stores added	5	5
Old stores closed	1	—
Stores—end of year	45	50

Store area (average square feet) 23,800
(range—square feet) 9,700—36,000

OSCO DRUG, INC.	1967	Plan 1968
Stores—beginning of year	54	69
New stores added	16	6
Old stores closed	1	—
Stores—end of year	69	75

Prescriptions filled—1967 1,534,000
Store area (average square feet) 7,900
(range—square feet) 2,300—19,250

CHICAGO OSCO STORES & DEPARTMENTS	1967	Plan 1968
Stores—beginning of year	57	64
New stores added	7	14
Stores—end of year	64	78

Prescriptions filled—1967 872,000
Store area (average square feet) 9,500
(range—square feet) 3,239—18,333

JEWEL HOME SHOPPING SERVICE	1967	Plan 1968
Routes—beginning of year	2,109	2,017
Routes added	1	—
Routes closed	93	38
Routes—end of year	2,017	1,979

Customers served 950,000

BUTTREY FOODS	1967	Plan 1968
Stores—beginning of year	32	31
New stores added	1	3
Old stores closed	2	—
Stores—end of year	31	34

Store area (average square feet) 20,700
(range—square feet) 5,600—38,200

EISNER STORES	1967	Plan 1968
Corporate stores	30	31
Affiliate stores	38	35

Corporate store area
(average square feet) 14,600
(range—square feet) 7,800—21,800

TURN-STYLE	1967	Plan 1968
Stores—beginning of year	9	9
New stores added	—	2
Stores—end of year	9	11

Store area (non-food)
(average square feet) 84,200
(range—square feet) 50,000—108,500

BRIGHAM'S	1967	Plan 1968
Stores—beginning of year	79	76
New stores added	5	8
Old stores closed	8	—
Stores—end of year	76	84

Store area (average square feet) 1,953
(range—square feet) 437—4,158

FOOD MARKETERS	1967
Institutional food service accounts served	1,146

WHITE HEN PANTRIES	1967	Plan 1968
Stores—beginning of year	14	19
New stores added	5	11
Stores—end of year	19	30

SUPERMARCHÉS GB	1967	Plan 1968
Stores—beginning of year	33	39
New stores added	6	7
Stores—end of year	39	46

Store area (average square feet) 20,550
(range—square feet) 10,230—34,550

SUPER BAZARS	1967	Plan 1968
Stores—beginning of year	7	8
New stores added	1	2
Stores—end of year	8	10

Store area (including food)
(average square feet) 86,760
(range—square feet) 28,950—204,410

STELLA SUPERMARKETS	1967	Plan 1968
Stores—beginning of year	6	8
New stores added	2	5
Stores—end of year	8	13

Store area (average square feet) 9,110
(range—square feet) 5,000—17,800

Serving families in many ways . . . based on empathy.

It is not groceries or merchandise we sell so much as the solutions to the needs, problems and well-being of our customers.

We do not think of our customers as visiting food stores solely to buy meats, fresh produce, packaged staple groceries, frozen foods, beverages, dairy products, bakery goods and housekeeping supplies. They do buy these products, of course; but in a deeper sense they are shopping for nutrition, enjoyment, health, convenience, cleanliness, mouth-watering goodness, menu variety, compliments-from-the-family, ease-in-housekeeping, gracious entertaining. Plus full value for their money, and a pleasant shopping experience.

In the broader fields of merchandise, our customers do buy clothing, shoes, furniture and home furnishings, drugs and medicines, beauty aids, flowers, books, records, toys, sporting goods, cameras, gifts, garden supplies, hardware and automotive supplies. But what they are really shopping for is an attractive and comfortable home, family well-being, happiness, peace of mind, self-expression, self-confidence, pride-of-person, pride-of-home, good taste in living and social acceptance. Plus full value for their money, and a pleasant shopping experience.

In short, we recognize that our customers shop for solutions to their problems, freedom from cares and worries, safety and security, relief from drudgery, enjoyment of life, and a wide variety of personal and family satisfactions and gratifications, which fulfill their needs and wants within their means.

Measuring up to this concept of service to customers calls for EMPATHY . . . entering into the feelings or spirit of others . . . putting ourselves in their places . . . being sympathetic to their needs and problems . . . treating each customer as we would like to be treated.

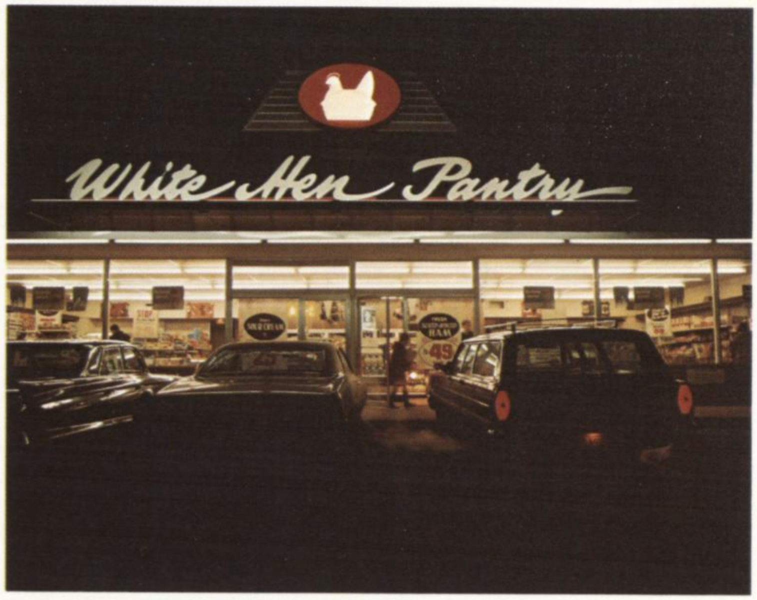
Brigham's Idea to serve giant, fancy sundaes and to add food service to traditional ice cream and candy shops appeals to all ages in the Boston area.

Osco's well-trained cosmeticians are building a following of housewives and teenagers for their neighborhood stores. Conducting classes for young people in both schools and stores on the proper use of cosmetics helps to build this service.

Food Marketers offering the help of meal planning specialists to hospitals and industrial plants makes them much more than just salesmen of wholesale foods.

Buttrey's outstanding "on the premise" bakeries are a real plus in their geographically wide-spread stores in Montana and Idaho. They train their own "master bakers" to be certain quality is uniformly high.

White Hen Pantries provide late night and Sunday convenience shopping in Chicago. Independent "owner/operator" families are profiting from being a partner with Jewel in offering this convenience.



Jewel Food Stores' ready-to-eat, take-out foods through 60 Chef's Kitchens provide a growing added service to many busy families. Easy to serve, hot and cold foods are available for individual servings or for larger parties. Jewel's central kitchen prepares most of the food sold through these Chef's Kitchens.

Serving families in many ways . . . based on empathy.

The Home Shopping Service is adding home parties to their catalog and grocery selling to provide a new service and bring a broader appeal to Jewel's original business.

Osco's Idea of keeping individual pharmaceutical records to assist in refilling prescriptions and in maintaining income tax information adds to their professional service. Up-to-date advice on Medicare and other new health plans is also a welcome additional service to senior citizens.

Jewel Food Stores' desire to develop information to "localize" product selection for each neighborhood is helping them to do an even better job of serving the desires and needs of each individual customer and each individual community.

Service Departments in all Jewel companies are important to the busy shopper. These services include cashing $25 million in checks each week, writing money orders, paying utility bills, and in some stores, providing notary and postal service.

Jewel Food Stores' meat cutting demonstrations for women's clubs, church groups, and PTA's encourage communication between customers and Jewel people. Customers are invited to "Ask the man at Jewel" when they need advice on food preparation.

Turn-Style's Schools for better photography in their Camera Shops has done much to gain a reputation of being camera headquarters among customers they serve.

Fresh Flowers at Star are a welcome and beautiful addition to a busy homemaker's shopping trip. Centerpieces for dinner tables and corsages for the spring prom are a convenience, and another reason to shop at Star.

Star's participation in urban redevelopment projects (such as this store in University Heights in Providence, R.I.) is typical of the effort of all Jewel companies to be of service to all parts of the community as they locate new stores.

Investment for future growth and service . . . prompted by restless UNsatisfaction.

In a rapidly changing world, with swiftly shifting consumer needs and expectations, we dare not be satisfied for long with anything we are doing, or assume that we are doing all the things we might be doing.

Restless *un*satisfaction represents a compelling desire to progress, to improve, to innovate, to venture, to pioneer.

The practice of pioneering leadership means less worrying about what our competitors are doing, and being more concerned—in a spirit of restless *un*satisfaction—with what we as merchants *might be doing* . . . first to improve our present service and then to discover helpful new things we might be doing in the customer's interest.

Over the years a spirit of *un*satisfaction has led to a conscious restless search, not only for better ways of serving customers, but for better ways of doing *everything*—in every area and function of our company from the raw material to a product's eventual use.

The effect of restless *un*satisfaction is to obsolete what is presently being done before changes in the public's needs, tastes or habits, do the obsoleting.

Most importantly, no merchandising business can ever assume that it "owns" its customers. It must *earn* their continued patronage by continuing to anticipate their needs and desires. This calls for a spirit of never-ending *un*satisfaction.

JEWEL FOOD STORES' development of roof-top parking for stores in densely populated neighborhoods has resulted in two master markets being built in areas that would not otherwise provide the necessary parking space.

OSCO DRUG'S PLAN to open new stores in shopping centers (such as the above store in an enclosed mall in Great Falls, Montana) has offered new opportunities for this Jewel company whose stores were formerly all in small town main street locations.

A Tomato Farm in southern Mexico, a joint project of Jewel Food Stores and Mexican partners, will produce its first crop in 1968 and assure an adequate supply of vine-ripened tomatoes in the "off season" in Chicago.

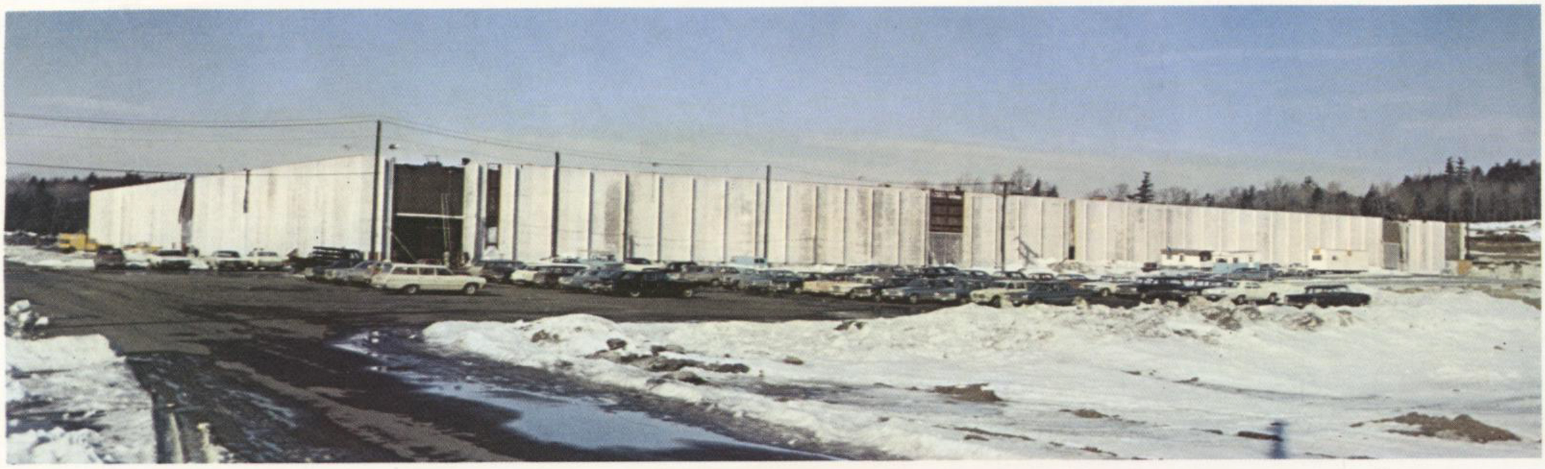
Plans for Stella, an Italian supermarket chain, call for progress in 1968 from 8 to 13 stores. Permits for construction in Milan often require inclusion of residential housing combined with commercial space.

Jewel Food Stores' efforts to bring together farmers and growers with customers has resulted in advantages to both. Developing new strains of seed, special planting, careful picking, field hydro-cooling and fast delivery of asparagus, corn, radishes, strawberries and peaches bring these items to Jewel Stores "Farm Stand" fresh.

Jewel Food Stores' White Hen Egg Farm is now supplying the highest quality, freshest eggs we have ever sold. The 300,000 laying chickens which provide 20% of the eggs needed for Jewel Food Stores will soon be increased to 600,000 hens.

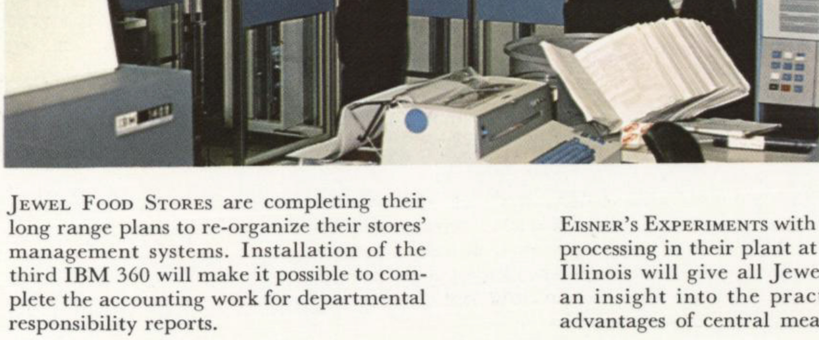
Investment for future growth and service . . . prompted by restless UNsatisfaction.

Star's new 294,000 sq. ft. grocery and produce distribution center in Norwood, Massachusetts will provide modern facilities for Star's long range growth plans in New England.



Buttrey's purchase of the ballpark in the center of Pocatello, Idaho for a new 55,000 sq. ft. Buttrey and Osco store location is typical of the ingenuity needed to obtain good locations.

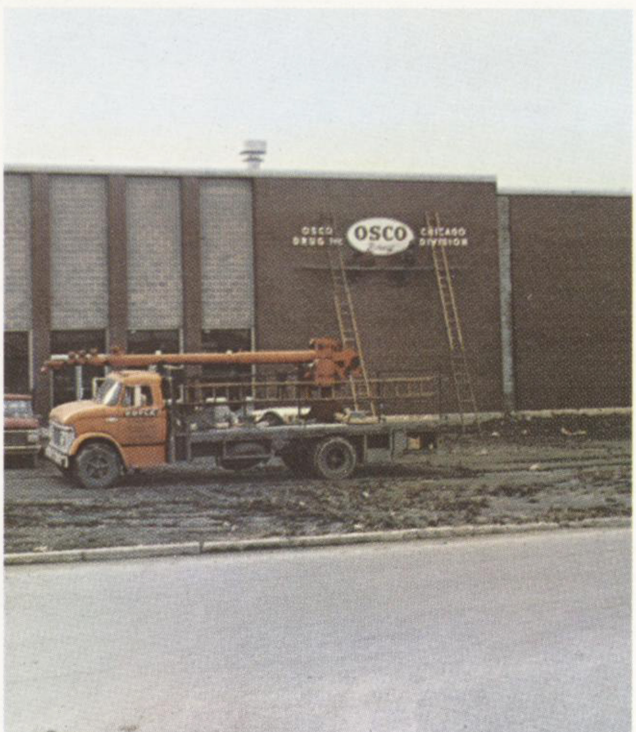
Chicago Osco Drug's installation of tabulating registers that can quickly be read by an optical font reader system will supply detailed computerized information on item and department sales and gross margin. Drug merchandisers will be able to emphasize and promote profitable lines and improve product turn-over.



Jewel Food Stores are completing their long range plans to re-organize their stores' management systems. Installation of the third IBM 360 will make it possible to complete the accounting work for departmental responsibility reports.

Eisner's Experiments with central meat processing in their plant at Champaign, Illinois will give all Jewel companies an insight into the practicality and advantages of central meat processing.

Supermarchés GB and Super Bazars are now operating this 200,000 square foot shopping center in Schoten, Belgium. The food store, restaurant, department store and auto center are all operated by Supermarchés GB or Super Bazars, our affiliates.



Plans for Growth in our general merchandise business have made it necessary to headquarter 275 Chicago Osco Drug, Turn-Style, and Osco Drug, Inc. buyers, merchandisers and operators in a new office building nearing completion in Franklin Park, Illinois. New distribution centers resulting in significant freight savings for Turn-Style and Chicago Osco Drug will also be in operation in 1968.

Jewel Food Stores' opening of a Chicago milk plant in the spring of 1968 will assure top quality and consistent supply with lower cost of product.

Building of "Master Markets" in the Chicagoland area is continuing. The larger, more efficient stores add greatly to the return on sales and investment through the addition of shops for pastry, sausage, cooked foods, etc. and, in most instances, include complete Osco Drug units.

Management and its development in Jewel's autonomous companies.

While all Jewel companies subscribe to an agreed-upon philosophy, and adhere to common principles and policies, their application is the autonomous function of their management group.

Effective personnel recruiting assures a steady infusion into the business of men and women who are capable of generating continued progress. But management provides the climate and methods that will assure the individual's development.

Organizations are living entities. They grow and become stronger as their managements adapt to the changing requirements of the times and as they develop greater resources of human talent. Individuals, in turn, grow by developing their potentials to do their jobs, by learning how to influence others and by reaching out for larger responsibilities.

In a sense, management cannot develop people; people must develop themselves. But management is responsible for developing a climate which encourages their people to break through the narrow confines of their jobs and encourages them to tackle the unbelievable things of which they and the business are capable.

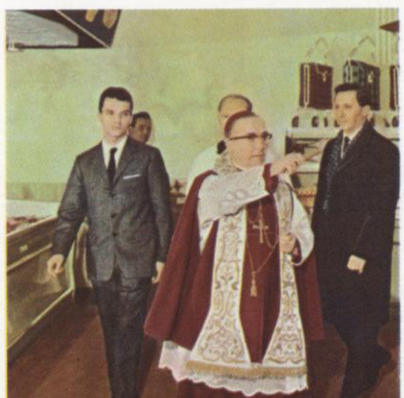
The management teams represented by the officers of each of the Jewel companies are shown on these pages. These individuals not only represent the successes of past management development practices but they accept as a primary responsibility the developing of more capable management talent in the future.

H. R. Rasmussen, *Corporate Executive Vice President, Marketing*
Alexander Wilson, *President, Food Marketers*
David L. Diana, *President, White Hen Pantries*

BRIGHAM'S
L. Agathos, *Vice President*
W. Y. Elisha, *President*
J. K. Delahunt, *Vice President*

OSCO DRUG, INC.
W. R. Christopherson, *President*
J. P. Street, *Vice President*
R. C. Hilden, *Vice President*
C. B. Stanley, *Treasurer & Assistant Secretary*
F. Dearborn, *Vice President*
G. T. Hilden, *Board Chairman*
W. E. King, *Vice President*

HOME SHOPPING SERVICE
W. R. Christopherson, *President*
H. T. Landon, *Vice President*
B. M. McFadden, *Vice President*
M. L. Hadley, *Executive Vice President*
R. A. Woodsome, *Vice President*



STELLA SUPERMARKETS
A. Bora, *Operations Manager*
(Following an Italian tradition, a Monsignor offers blessings at the opening of a new supermarket.)
J. D. Maranelli, *General Manager*

EISNER STORES
J. W. Smith, *Vice President*
J. H. Armstrong, *President*

Names listed read from left to right.

TURN-STYLE
R. E. Craighead, *Vice President*
J. Edwards, *Vice President*
D. L. Lewis, *President*
F. J. Tyska, *Vice President*

STAR MARKETS
R. Diran, *Senior Vice President*
J. Avedisian, *Vice President*
S. H. Goldman, *Vice President*
J. M. Mugar, *President*
R. H. Jacobson, *Vice President & Treasurer*
E. B. Webb, *Vice President*
G. N. Gallant, *Vice President*

CHICAGO OSCO DRUG STORES
R. E. George, *Vice President*
T. F. Harwood, *Vice President*
L. J. Skyles, *President*
P. W. Cook, *Vice President*

SUPERMARCHÉS GB
M. Cauwe,
Chairman and Managing Director
J. Dopchie, *General Manager*

BUTTREY FOODS
A. J. Larson,
Treasurer & Controller
P. R. Palm,
Executive Vice President
J. J. Quinn,
Secretary & General Counsel
R. S. Williams, *President*
D. C. Millons, *Vice President*

JEWEL FOOD STORES
C. R. Johnson, *Vice President*
H. G. Beckner, *President*
F. L. Spreyer, *Executive Vice President*
E. J. Davis, *Vice President & Controller*
L. D. Smith, *Vice President*
R. P. Dorsher, *Vice President*

JEWEL FOOD STORES
B. H. Hambleton, *Vice President*
J. A. Brewer, *Vice President*
F. A. Woerthwein, *Executive Vice President*
J. F. Grimes, *Vice President*
R. L. Hileman, *Vice President*

Accounting Principles Used In Preparation of Financial Statements

To help our shareholders understand the accompanying financial statements, we have set forth below a brief description of some of the more significant accounting principles followed by the Company:

INVENTORIES

Substantially all inventories are valued at the lower of cost or market, with cost being determined on a first-in, first-out basis. Out-of-season and discontinued merchandise is reduced to expected realizable value.

PRE-OPENING COSTS

Those costs incurred prior to the opening of a new retail unit or other facility are known as "pre-opening expenses." The Company has followed the practice of charging such expenses against income as they are incurred.

PROFIT SHARING AND RETIREMENT TRUSTS

Nearly all the retirement funds for the benefit of employees are provided through profit-sharing retirement trusts. Amounts contributed to the individual trusts are based on earnings after providing for a basic return to shareholders. Retirement benefits are determined by the market value of the trusts and are fully funded. These funds amounted to approximately $122,000,000 at the end of 1967.

INVESTMENT CREDIT

The reduction in federal income taxes arising from investment credit on the current year's capital asset additions is reflected in the earnings of the Company in the current year.

DEPRECIATION, DEFERRED TAXES AND OTHER DEFERRED LIABILITIES

Buildings and equipment are depreciated over their average useful lives on a straight-line basis and provision for federal income taxes is based on this method in the accompanying financial statements. The Company uses an accelerated method of computing depreciation in determining its actual current income tax liability. The variation between federal income tax liability determined for financial statement purposes and the actual federal income tax liability currently payable appears in the balance sheet caption "Deferred Federal Income Taxes."

"Other Deferred Liabilities" includes the accruals for contingent compensation and self-insured losses. These liabilities, which are to be paid at a future date, are deductible for federal income tax purposes when paid. However, it is the Company's practice to record these tax benefits currently in the balance sheet caption "Deferred Federal Income Taxes."

PER SHARE INFORMATION

In keeping with the requirements set forth by the American Institute of Certified Public Accountants' Accounting Principles Board, all earnings per share information in this report has been developed based on the average number of shares outstanding during the year instead of shares outstanding at the end of the year.

Consolidated Income Account
AND ACCUMULATED EARNINGS—UNAPPROPRIATED

JEWEL COMPANIES, INC.	*53 Weeks Ended February 3, 1968*	*52 Weeks Ended January 28, 1967*
Sales and Revenues:		
Supermarkets	$ 946,641,592	$ 804,288,173
Drug Stores	121,838,766	94,721,788
Home Service Routes	88,425,520	87,679,433
Self-Service Department Stores	52,530,366	44,704,763
Restaurants	14,108,728	12,965,794
Wholesale Sales and Services	20,871,905	15,777,485
Total Sales	1,244,416,877	1,060,137,436
Interest Income	552,997	615,659
Total Sales and Revenues	1,244,969,874	1,060,753,095
Cost of Doing Business:		
Cost of goods sold	979,369,885	829,867,079
Selling, general and administrative expense	227,824,469	196,762,764
Provision for doubtful accounts	2,237,792	1,802,251
Interest on indebtedness for:		
Direct obligations of Jewel Companies, Inc.	2,120,569	1,758,911
Obligations of real estate affiliates	2,077,857	1,832,052
	1,213,630,572	1,032,023,057
Earnings Before Federal Income Taxes	31,339,302	28,730,038
Provision for Federal Income Taxes	13,748,000	12,254,000
Net Earnings for the Year	17,591,302	16,476,038
Per Common Share	*$2.64*	*$2.47*
Accumulated Earnings—unappropriated, beginning of year	85,972,618	77,751,704
	103,563,920	94,227,742
Deduct:		
Cash Dividends declared:		
Jewel preferred stock	169,883	177,936
Jewel common stock	8,417,820	7,954,756
Buttrey common stock (prior to pooling)		122,432
Transactions in treasury stock	258,358	
	8,846,061	8,255,124
Accumulated Earnings—unappropriated, end of year	$ 94,717,859	$ 85,972,618

See accompanying notes to consolidated financial statements and description of accounting principles.

Consolidated Balance Sheet

JEWEL COMPANIES, INC.

ASSETS

	February 3, 1968	*January 28, 1967*
Current Assets:		
Cash	$ 17,946,563	$ 12,054,730
Marketable securities and certificates of deposit, at cost which approximates market	7,426,144	7,723,995
Accounts receivable, less allowances ($678,000 and $650,000 respectively)	21,322,935	20,534,875
Inventories, substantially at lower of first-in, first-out cost or market	92,622,003	86,981,230
Prepaid expenses and supplies	3,671,143	3,627,402
Total current assets	142,988,788	130,922,232
Deferred Charge:		
Premiums advanced to customers less allowances ($139,000 and $51,000 respectively)	1,045,743	1,422,627
Investments:		
Minority interest in foreign affiliates (at cost)	5,982,541	5,639,554
All other	345,139	802,746
Property, Plant and Equipment (at cost):		
Buildings	71,420,940	66,876,372
Equipment and leasehold improvements	157,188,822	137,956,244
	228,609,762	204,832,616
Less allowance for depreciation and amortization	92,217,753	80,880,879
	136,392,009	123,951,737
Land	26,225,844	22,530,309
Total property, plant and equipment	162,617,853	146,482,046
Goodwill	1	1
	$312,980,065	$285,269,206

LIABILITIES

	February 3, 1968	January 28, 1967
Current Liabilities:		
Accounts payable and accrued expenses	$ 48,491,242	$ 36,567,205
Dividends payable	2,188,680	2,074,166
Accrued federal, state and local taxes	14,170,236	12,617,074
Accrued payrolls and profit sharing	12,411,343	11,974,463
Long-term indebtedness, due within one year:		
Direct obligations of Jewel Companies, Inc.	1,270,409	1,249,751
Obligations of real estate affiliates	2,090,556	1,818,144
Total current liabilities	80,622,466	66,300,803
Long-Term Indebtedness, due after one year:		
Direct obligations of Jewel Companies, Inc.	36,733,821	35,371,019
Obligations of real estate affiliates	39,967,310	37,321,209
Deferred Federal Income Taxes	10,712,701	9,809,484
Other Deferred Liabilities	2,300,429	1,944,000
Stockholders' Investment:		
Preferred stock—3¾% cumulative $100 par value—authorized and issued 48,000 shares at Feb. 3, 1968	4,800,000	4,800,000
Common stock—$1 par value—authorized 15,000,000 shares, issued 6,622,042 shares at Feb. 3, 1968	42,631,260	42,597,712
Accumulated earnings—Reserved for self-insured losses and general contingencies	1,250,000	1,250,000
Accumulated earnings—Unappropriated	94,717,859	85,972,618
Treasury stock at cost	(755,781)	(97,639)
Total stockholders' investment	142,643,338	134,522,691
	$312,980,065	$285,269,206

See accompanying notes to consolidated financial statements and description of accounting principles.

Notes to Consolidated Financial Statements

PRINCIPLES APPLIED IN CONSOLIDATION

The consolidated financial statements include the accounts of Jewel Companies, Inc., its subsidiaries and its affiliated real estate corporations. (Jewel owns preferred stock convertible into 99% of the equity of the real estate affiliates.) The equity of the Company in the net assets of the consolidated subsidiaries and affiliates is the same as the carrying amount of the investments. Substantially all intercompany transactions have been eliminated.

PROVISION FOR DEPRECIATION

Straight-line depreciation over the useful lives of depreciable property is used for financial statement purposes. The useful lives approximate 37 years for buildings, 3 years for passenger cars, 6 years for trucks and trailers, 10 years for equipment and 17 years for leasehold improvements.

The depreciation expense for the year as recorded in the accounts is as follows:

	1967	*1966*
	(In thousands)	
Jewel Companies, Inc.	$13,439	$11,991
Real Estate Affiliates	1,148	998
Total	$14,587	$12,989

PROVISION FOR FEDERAL INCOME TAXES

The provision for federal income taxes includes the following:

	53 Weeks Ended Feb. 3, 1968	*52 Weeks Ended Jan. 28, 1967*
	(In thousands)	
Federal Income Tax Incurred	$13,822	$12,336
Investment Tax Credit for the year	978	1,037
Taxes currently payable	12,844	11,299
Deferred taxes, resulting principally from accelerated depreciation	904	955
Total provision	$13,748	$12,254

LONG-TERM INDEBTEDNESS

Long-term indebtedness at February 3, 1968 was as follows:

	Rate	*Total Outstanding*	*Due Within One Year*	*Final Maturity*
		(In thousands)		
Direct Obligations of Jewel Companies, Inc.:				
Bank-administered trusts	4.5%	$20,000		1987
Banks and Insurance Companies	2.85-5.00	7,003	$ 974	1968-78
Mortgage notes	4.50-5.75	5,001	296	1970-84
Interim notes	Prime	6,000		1973
		38,004	1,270	
Obligations of real estate affiliates	4.625-6.50%	42,058	2,091	1977-89

Long-term debt matures as follows (in thousands):

	Direct Obligations	*Obligations of Real Estate Affiliates*
1969	$ 1,336	$ 2,160
1970	1,507	2,245
1971	721	2,332
1972	1,960	2,423
1973 and after	31,210	30,807
	$36,734	$39,967

The long-term debt of the real estate affiliates is not a direct obligation of Jewel Companies, Inc., but is secured by the assignment of lease agreements between Jewel and these affiliates and will be fully amortized during the firm term of each lease, generally 20 years.

During 1967, Jewel amended a credit agreement with a group of its principal banks under which it now can borrow an amount not to exceed $16,000,000 evidenced by interim notes with interest at the prime rate of The First National Bank of Chicago then applicable to 90-day commercial loans, and maturing on September 1, 1970, unless extended

by mutual agreement. At maturity the interim notes may be converted to four-year term notes bearing interest at one-quarter of one per cent over the prime rate.

The Company has negotiated a 25-year loan of $30,000,000 with three insurance companies at a rate of 6⅞% per annum, to be taken down in three equal installments, beginning September 1, 1968. The terms of the agreement specify repayment in equal annual payments of $1,500,000 beginning in 1974 through 1993.

Under terms of the existing note agreements, $39,600,000 of accumulated earnings are not restricted for the payment of cash dividends on common stock and under the new note agreement unrestricted accumulated earnings will be reduced to $25,000,000.

PREFERRED STOCK

Under the sinking fund provisions relating to the preferred stock, Jewel must acquire annually on or before each June 30 at least 1,500 shares. As of February 3, 1968, there were 2,973 shares in the treasury at a cost of $226,771, approximately $76 per share, covering the sinking fund requirements through June 30, 1968 and part of the requirement for June 30, 1969. The preferred stock may be redeemed in whole or in part on 30 days' notice at $103 per share, plus accrued dividends.

COMMON STOCK

Common stock transactions during the year were as follows:

	Shares	*Amount*
	(In thousands)	
Balance at beginning of year	6,619	$42,598
Issued:		
Employee Stock Purchase Plan	*	39
Stock Options	3	61
Merger adjustments		(67)
Balance at end of year	6,622	$42,631

**Treasury stock*

Transactions in common shares in the treasury during the year were as follows:

	Shares	*Amount*
	(In thousands)	
Opening balance	1	$ 36
Purchases	44	1,366
	45	1,402
Issuances:		
Employee Stock Purchase Plan	17	548
Pooling agreement	10	325
Total issuances	27	873
Closing balance (Average per share $30.18)	18	$ 529

At February 3, 1968, there were 524,319 shares of common stock reserved, of which 141,827 shares were for employee stock purchase plan purchases, 61,000 shares were for issuance to profit-sharing trusts and 321,492 shares were for stock options described in the following table:

	Number of Shares		
	Reserved	*Granted*	*Available*
Balance January 28, 1967	174,341	174,134	207
Reserved	150,000	—	150,000
Granted		10,500	(10,500)
Exercised	(2,693)	(2,693)	
Cancelled	(156)	(7,656)	7,500
Balance February 3, 1968	321,492	174,285	147,207
Options exercisable at February 3, 1968		116,773	

Outstanding options were granted at prices ranging from $24.29 to $38.50 per share, representing 95% or more of the market price on the date of grant, become exercisable in equal installments over a four-year period and expire from five to ten years from the date of grant.

LEASE COMMITMENTS

Rentals for leased properties, primarily retail locations (excluding those leased from real estate affiliates), were $11,352,000 in 1967 and $10,750,000 in 1966 including rentals based on sales where applicable. As of February 3, 1968, the leases call for minimum payments of approximately $11,379,000 for fiscal 1968. Of this annual amount, 27% will have expired by the end of five years, 54% by the end of 10 years, 88% by the end of 15 years, and 99% by the end of 20 years.

Consolidated Ten Year Financial Summary

JEWEL COMPANIES, INC.

(Total dollars in thousands except per share figures)

*For the Year**	*1967†*	*1966*	*1965*
Total sales and revenues	$1,244,970	$1,060,753	$ 934,238
Earnings:			
Net for the year	$ 17,591	$ 16,476	$ 16,198
Earnings per common share**	2.64	2.47	2.45
Dividends per common share**	1.25	1.20	1.13
Retained earnings	$ 9,004	$ 8,221	$ 8,407
Depreciation	14,587	12,989	11,829
New property, plant and equipment (net):			
Operating companies	$ 25,673	$ 21,739	$ 17,080
Real estate affiliates	5,050	10,080	3,728
*At the Year End**			
Net working capital	$ 62,366	$ 64,621	$ 64,336
Total assets	312,980	285,269	270,604
Long-term debt:			
Jewel Companies, Inc. direct obligations	$ 36,734	$ 35,371	$ 33,066
Real estate affiliates	39,967	37,321	32,421
Preferred stock	4,503	4,726	4,764
Common stockholders' equity	138,141	129,797	118,767
Equity per common share**	20.92	19.61	18.16
Average number of common shares outstanding** (in thousands)	6,608	6,603	6,526

*In May, 1962, the fiscal year of the Company was changed to the Saturday nearest January 31 from the Saturday nearest December 31.

†53-week year; other years 52 weeks.

**Adjusted for stock splits and stock dividends.

	1964	*1963*	*1962†*	*1961*	*1960*	*1959*	*1958†*
	$ 845,086	$ 799,271	$ 753,034	$ 678,858	$ 632,575	$ 598,343	$ 558,170
	$ 14,732	$ 12,325	$ 12,934	$ 12,183	$ 12,075	$ 11,416	$ 9,872
	2.23	1.86	1.96	1.88	1.90	1.88	1.65
	1.07	1.07	1.07	1.00	.93	.80	.67
	$ 7,639	$ 5,311	$ 6,335	$ 6,243	$ 6,780	$ 7,117	$ 6,329
	10,643	9,725	8,762	7,925	7,298	6,700	5,640
	$ 18,451	$ 14,772	$ 17,333	$ 11,507	$ 10,956	$ 9,465	$ 13,829
	5,283	9,725	6,535	3,255	3,159	3,334	6,450
	$ 59,789	$ 66,168	$ 43,455	$ 50,412	$ 49,842	$ 45,082	$ 38,238
	251,413	235,579	199,370	185,091	172,371	144,662	132,510
	$ 34,749	$ 37,624	$ 16,145	$ 18,459	$ 21,201	$ 19,670	$ 20,446
	27,704	25,729	16,644	14,172	12,059	9,433	6,328
	4,913	5,095	5,374	5,537	5,691	5,748	5,803
	110,283	102,023	96,557	88,305	79,273	69,508	59,716
	16.88	15.68	14.85	13.65	12.53	11.62	10.14
	6,521	6,504	6,496	6,383	6,227	5,966	5,860

Consolidated Source and Use of Funds

JEWEL COMPANIES, INC.

	53 Weeks Ended February 3, 1968	52 Weeks Ended January 28, 1967
Source of Funds:		
Net earnings	$17,591,302	$16,476,038
Depreciation and amortization	14,587,271	12,988,668
Increase in deferred taxes and other deferred liabilities	1,259,646	1,506,289
	33,438,219	30,970,995
Increase in long-term debt (net):		
Jewel Companies, Inc. direct obligations	1,383,460	329,702
Real estate affiliates	2,918,513	5,212,569
Sales (purchases) of capital stock-net	(882,952)	2,771,145
Increase (decrease) in payables and accruals	14,028,593	(3,375,503)
	50,885,833	35,908,908
Use of Funds:		
Dividends to owners of the business	8,587,703	8,255,124
New property, plant and equipment (net):		
Operating companies	25,673,191	21,738,893
Real estate affiliates	5,049,887	10,080,210
Increase in accounts receivable	788,060	2,608,625
Increase in inventories	5,640,773	11,048,429
Increase (decrease) in investments	(114,620)	729,678
All other (net)	(333,143)	302,375
	45,291,851	54,763,334
Increase (decrease) in Cash and Marketable Securities	$ 5,593,982	$(18,854,426)

Accountants' Report

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
JEWEL COMPANIES, INC.:

We have examined the accompanying consolidated balance sheet of Jewel Companies, Inc. and subsidiaries and real estate affiliates as of February 3, 1968, and the related statements of income and accumulated earnings and source and use of funds for the fifty-three weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Jewel Companies, Inc. and subsidiaries and real estate affiliates at February 3, 1968, the consolidated results of their operations, and the source and use of funds for the fifty-three weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 16, 1968

Touche, Ross, Bailey + Smart

Corporate Officers

GEORGE L. CLEMENTS
Chairman, Board of Directors and Chief Executive Officer

FRANKLIN J. LUNDING
Chairman, Finance Committee and Chief Financial Officer

DONALD S. PERKINS
President

HOWARD R. RASMUSSEN
Executive Vice President, Marketing

HOWARD O. WAGNER
Executive Vice President, Finance and Treasurer

GRANT C. GENTRY
Vice President, Secretary and General Counsel

GEORGE T. HILDEN
Vice President, General Merchandise Services

JOSEPH RADOV
Vice President, Manufacturing Planning

RICHARD D. STURTEVANT
Vice President, Real Estate Planning

WEIR C. SWANSON
Vice President, Personnel and Public Affairs

JOHN N. BALCH
Controller

CHARLES B. ERICKSON
Assistant Secretary

WALTER E. MEYER
Assistant Controller

H. ROBERT POWELL
Assistant Treasurer

J. BURTON THOMPSON
Assistant Secretary

Directors

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Chairman
Booz · Allen & Hamilton, Inc.

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Dean
Harvard Graduate School of Business

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Illinois Tool Works Inc.

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President, Osco Drug, Inc.

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Chairman, Board of Directors and Chief Executive Officer

STEPHEN M. DuBRUL, JR.
Partner
Lehman Brothers

JOSEPH M. FRIEDLANDER
Chairman, First National Bank and Trust Co., Barrington, Illinois

WILLIAM A. GERBOSI
Independent Business Consultant

A. VERNON JANNOTTA
Independent Business Consultant

FRANKLIN J. LUNDING
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Senior Partner
McDermott, Will & Emery

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Goldman, Sachs & Co.

JOHN M. MUGAR
President
Star Market Co.

DONALD S. PERKINS
President

HOWARD R. RASMUSSEN
Executive Vice President

HOWARD O. WAGNER
Executive Vice President and Treasurer

RILLING S. WILLIAMS
President
Buttrey Food Stores

ANNUAL MEETING
The annual meeting of shareholders will be held at 2:00 p.m. on Wednesday, June 19, 1968 at the Palmer House, Chicago, Illinois.

TRANSFER AGENTS
Manufacturers Hanover Trust Company, 40 Wall Street, New York, New York 10015
Continental Illinois National Bank and Trust Company of Chicago, 231 South LaSalle Street, Chicago, Illinois 60690

REGISTRARS
Bankers Trust Company, 16 Wall Street, New York, New York 10015
The First National Bank of Chicago, 38 South Dearborn Street, Chicago, Illinois 60690

STOCK LISTING
New York Stock Exchange
Midwest Stock Exchange

CORPORATE OFFICE
1955 West North Avenue, Melrose Park, Illinois 60160 (After April 26, 1968)

1967 ANNUAL REPORT, JEWEL COMPANIES, INC. 135 S. LA SALLE STREET, CHICAGO, ILLINOIS 60603